

## Message Text

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ACTION EB-04

INFO OCT-01 SS-14 ISO-00 COME-00 STR-02 LAB-01 EA-06

L-01 NSC-05 CIAE-00 INR-05 NSAE-00 OMB-01 SP-02

TRSE-00 IO-06 /048 W

-----086300 300441Z /65

P R 300335Z JAN 78

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC PRIORITY 6261

INFO USMISSION GENEVA

AMEMBASSY SINGAPORE

C O N F I D E N T I A L SECTION 1 OF 2 TAIPEI 0599

LIMDIS

USMTN FOR PHELAN

STATE ALSO PASS COMMERCE FOR WEIL; LABOR FOR SAMUEL; AND  
STR FOR AMB STRAUSS

E.O. 11652: GDS

TAGS: ETRD, OTRA, HK, TW

SUBJECT: TEXTILES: USG/REPUBLIC OF CHINA BILATERAL NEGOTIA-  
TIONS

REF: TAIPEI 0571

SUMMARY: BILATERAL TEXTILE NEGOTIATIONS BETWEEN U.S. AND ROC  
REACHED IMPASSE JANUARY 28 AND WILL BE RESUMED IN WASHINGTON  
FEBRUARY 21. AS FORESEEN AND REPORTED EARLIER IMPASSE CENTERED  
AROUND HANDLING OF CATEGORIES 645, 646, 638, AND 639. ROC MADE  
PROPOSAL JANUARY 27 WHICH WAS UNACCEPTABLE IN ITS TOTALITY AND  
IN ITS VARIOUS PARTS. U.S. SIDE COUNTERED ON JANUARY 28, AND  
ROC HAS SAID U.S. PROPOSAL LIKEWISE UNACCEPTABLE. END SUMMARY.

1. SECOND SESSION OF US/ROC BILATERAL NEGOTIATIONS RECESSED  
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JANUARY 28 AND WILL BE RESUMED FEBRUARY 21 IN WASHINGTON.  
IMPASSE CUASING THE RECESS CENTERED AROUND MAN-MADE FIBER KNIT  
SHIRTS (CATEGORIES 638 AND 639) AND KNIT SWEATERS (CATEGORIES  
645 AND 646). IN NOVEMBER SESSION IN WASHINGTON USG STATED IT  
SOUGHT AN EIGHT PERCENT REDUCTION IN THE BASE LEVELS FOR THOSE  
FOUR CATEGORIES AND THAT IT WAS WILLING TO PAY REASONABLE COM-  
PENSATION FOR SUCH REDUCTIONS. THE ROC IN NOVEMBER STATED ANY

REDUCTION WAS "OUT OF THE QUESTION" BUT DID OFFER A FIVE-YEAR STANDSTILL IN TERMS OF ANNUAL GROWTH PROVIDED THERE WAS COMPENSATION. THE TWO SIDES RECESSED THEN OVER THE MATTER WITH NEGOTIATIONS TO BE RESUMED IN TAIPEI THIS PAST WEEK. FYI HONG KONG GAVE USG SIX PERCENT REDUCTION IN CATEGORIES 645 AND 646 WITH NO RPT NO COMPENSATION GIVEN. END FYI.

2. DURING THIS PAST WEEK'S SESSION, ROC PROPOSED, INITIALLY, A FOUR PERCENT REDUCTION IN 638/639 AND TWO PERCENT REDUCTION IN 645/646. THIS WAS LATER FORMALLY REVISED YESTERDAY TO FIVE PERCENT FOR 638/639 AND ONE AND ONE-HALF PERCENT FOR 645/646. THE FORMAL ROC PROPOSAL ALSO DEMANDED COMPENSATION WHICH COULD ONLY BE DESCRIBED AS EXORBITANT. FOR EXAMPLE, WITH REGARD TO 645/646, THE ROC REQUESTED THAT YARD-FOR-YARD COMPENSATION BE GIVEN FOR BOTH LOST ANNUAL GROWTH AND THE REDUCTION BY TRANSFERRING ALL SUCH YARDAGE INTO CATEGORIES 445/446 (WOOLEN SWEATERS) WHERE THE IMPORT TO DOMESTIC PRODUCTION PENETRATION RATIO IS ALREADY OVER THREE HUNDRED AND FIFTY PERCENT IN 446 AND SEVENTY PERCENT IN 445. THE SAME PRINCIPLE WAS REQUESTED BY THE ROC WITH REGARD TO 638/639, ALTHOUGH THE COMPENSATION FOR THE LOST ANNUAL GROWTH WAS SPREAD AMONG NINE OTHER APPAREL CATEGORIES AND THE COMPENSATION FOR THE FIVER PERCENT REDUCTION WAS SPREAD AMONG THREE OF THE NINE CATEGORIES.

3. WHEN THE USDEL RECEIVED AND ANALYSED THE ROC OFFER, THE USDEL IMMEDIATELY STATED THE OFFER WAS UNACCEPTABLE AND NOT A CONFIDENTIAL

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BASIS FOR SERIOUS NEGOTIATION. WHAT WAS PARTICULARLY GALLING WAS THE ROC DEMAND THAT THE USG COMPENSATE IN THE MAN-MADE FIBER SWEATERS BY GRANTING EQUAL YARDAGE IN WOOL SWEATERS. COMMENT: THE U.S. KNIT SWEATER INDUSTRY, WHETHER WOOL, COTTON, OR MAN-MADE FIBER, IS IN VERY BAD SHAPE INDEED AND THAT THE ENTIRE SWEATER INDUSTRY NEEDS RELIEF FROM RAPIDLY ESCALATING IMPORTS. END COMMENT.

4. THE USDEL ON FRIDAY ALSO POINTED OUT THAT HONG KONG AND KOREA HAD GIVEN THE USG CONCESSIONS WITHOUT COMPENSATION, I.E., KOREA AGREED TO A STANDSTILL IN GROWTH IN WOOL SUITS WHERE KOREA IS THE LARGEST SUPPLIER AND THAT THE ROC OUGHT TO BE PREPARED TO DO THE SAME WHERE IT IS THE LARGEST SUPPLIER (SHIRTS AND SWEATERS). FURTHER, THE USDEL POINTED OUT THAT HONG KONG GAVE A SIX PERCENT REDUCTION IN MAN-MADE FIBER SWEATERS WITHOUT ANY COMPENSATION. THE USDEL ALSO SAID THAT, EVEN IF COMPENSATION WERE POSSIBLE, THERE IS NO REQUIREMENT THAT IT BE YARD FOR YARD.

5. BECAUSE THE ROC OFFER WAS SO PATENTLY INSUFFICIENT, USDEL STATED IT WOULD MAKE A COUNTER PROPOSAL IN SATURDAY'S SESSION IN AN ATTEMPT TO GET THE NEGOTIATIONS IN PROPER FRAME. THE

U.S. PROBLEM IS MORE WITH SWEATERS THAN WITH SHIRTS (ALTHOUGH BOTH ARE HEAVILY PENETRATED) AND, HENCE, WE SEEK A GREATER REDUCTION IN SWEATERS THAN IN SHIRTS, RATHER THAN THE ROC SCHEME WHICH WOULD REDUCE SHIRTS MORE THAN SWEATERS. SECONDLY, SINCE ROC ITSELF RAISED THE MATTER OF QUINTY WITH ITS MAJOR COMPETITORS (LIKE HONG KONG), THE USDEL BELIEVES THAT ON A SWEATER REDUCTION, WE SHOULD NOT HAVE TO PAY COMPENSATION IN THE SAME CATEGORIES.

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C O N F I D E N T I A L SECTION 2 OF 2 TAIPEI 0599

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STR FOR AMB STRAUSS

6. ACCORDINGLY, THE U.S. PROPOSED ON SATURDAY (A PROPOSAL NOT RPT NOT DISCUSSED WITH U.S. ADVISERS) THAT THERE BE A SIX PERCENT REDUCTION IN 645/646 WITH NO COMPENSATION FOR EITHER LOST GROWTH OR THE REDUCTION (A LA HONG KONG) AND TWO PERCENT REDUCTION IN THE 638/639 SHIRTS WITH NO COMPENSATION FOR THE LOST GROWTH BUT COMPENSATION FOR THE REDUCTION ELSEWHERE IN THE OTHER SPECIFIC LIMITS EXCEPT IN WOOL. INASMUCH AS USG WAS PROPOSING TO MOVE SIGNIFICANTLY OFF ITS EIGHT PERCENT REDUCTION PROPOSAL MADE IN NOVEMBER FOR THE FOUR CATEGORIES (I.E., BY REDUCING ITS REQUEST BY MORE THAN 53 PERCENT IN TERMS OF YARDS) AND IN VIEW OF THE HONG KONG PRECEDENT, THE USDEL FELT THIS PROPOSAL WAS MORE THAN FAIR. THE ROC NEGOTIATOR, Y. T. WONG, TERMED THE PROPOSAL UNACCEPTABLE AND ATTEMPTED

TO SAY THAT THE U.S. OFFER WAS TOUGHER THAN THE U.S. PRO-  
POSAL IN NOVEMBER BECAUSE THE ELEMENT OF COMPENSATION WAS  
LARGELY ABSENT. WONG OVERLOOKED THE FACT THAT THE USG WAS  
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MOVING FROM AN EIGHT PERCENT OVERALL REDUCTION TO ONLY TWO  
AND SIX PERCENT.

7. BECAUSE THE TWO SIDES WERE OBVIOUSLY FAR APART IN THEIR  
RESPECTIVE POSITIONS, WONG PROPOSED THAT THE SATURDAY MORNING  
SESSION BE RECESSED AND THAT THE PLANNED AFTERNOON SESSION BE  
MADE SUBJECT TO CALL. THE U.S. SIDE AGREED, AND THE AFTERNOON  
SESSION WAS NOT HELD.

8. COMMENT: IT IS OBVIOUS THAT OVERALL ROC PREOCCUPATION  
IS EQUITY POSITION WITH HONG KONG AND KOREA. U.S. SIDE HAS  
TRIED TO RECOGNIZE THAT BY PROPOSING THE SIX PERCENT FORMULA  
AKIN TO THE KONG KONG FORMULA. IT IS EQUALLY OBVIOUS THAT ROC  
DOES NOT RECOGNIZE (OR PERHAPS WISH TO RECOGNIZE) THE SERIOUS-  
NESS OF THE U.S. SWEATER INDUSTRY'S DIFFICULTIES AND THE  
POLITICAL PRESSURES ON THE ADMINISTRATION FROM BOTH THE INDUS-  
TRY AND THE CONGRESS. (THE VANIK LETTER TO AMBASSADOR STRAUSS  
IS ILLUSTRATIVE OF THIS.) FOR SOME REASON, THE ROC SEEMS TO  
THINK THAT TIME IS ON ITS SIDE DESPITE OUR EFFORTS PRIVATEQ  
TO PERSUADE WONG AND OTHERS THAT THE POLITICAL PRESSURE ON  
THE ADMINISTRATION CAN ONLY INCREASE.

9. IT APPEARS THAT THE TAIWAN DOMESTIC INDUSTRY IS MORE  
AMENABLE TO MEETING THE U.S. POSITION THAN IS THE ROCG. OUR  
INDUSTRY ADVISORS HAVE HAD A NUMBER OF CONTACT MEETINGS WITH  
THEIR COUNTERPARTS HERE, AND THE TAIWAN INDUSTRY SEEMS MORE  
READY TO MOVE OUR WAY.

10. IF THESE NEGOTIATIONS ARE ULTIMATELY TO SUCCEED, THE ROC  
MUST MOVE MORE IN THE U.S. DIRECTION. THE ROC ALREADY HOLDS  
MORE THAN FIFTY PERCENT OF THE TOTAL IMPORT MARKET IN THE  
MAN-MADE FIBER SWEATERS. WHAT THE USG IS PROPOSING WOULD  
STILL RPT STILL ENABLE THE ROC TO HOLD MORE THAN FIFTY PER-  
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CENT. THE U.S. SIDE PROBABLY HAS SOME MORE ROOM FOR MANEUVER  
ON THE SHIRTS BUT SUCH MANEUVERING CANNOT BE DONE UNTIL THE  
ROC COMES OUR WAY ON THE SWEATERS.

11. FINALLY, THE U.S. ADVISORS ACCOMPANYING THE USDEL SEE  
THIS SWEATER/SHIRT ISSUE AS A WATERSHED AND A TEST OF THE

ADMINISTRATION'S CREDIBILITY. THE U.S. INDUSTRY BELIEVES THAT THEIR REQUEST FOR RELIEF ON THESE FOUR APPAREL ITEMS WHOSE IMPORT PENETRATION RATIOS RANGE AS HIGH AS THREE HUNDRED AND FIFTY PERCENT MERIT STRONG REMEDIAL ACTION BY THE GOVERNMENT, REFLECTING THE MARCH 1977 EPG DIRECTIVE TO OBTAIN RELIEF FOR THE MOST IMPACTED SECTION OF THE U.S. TEXTILE INDUSTRY. THEY HAVE ALSO INDICATED THEY ARE NOW PRESSING THEIR CASE IN THE WHITE HOUSE. WHILE IT IS NOT UNCOMMON FOR THE INDUSTRY TO EXAGGERATE ITS WOES, THE SWEATER INDUSTRY IS CLEARLY BEING BADLY HURT BY IMPORTS AND THE ROC IS THE MAJOR EXPORTER OF THOSE SWEATERS. A LITTLE HELP BY THE ROC HERE WOULD GO A LONG WAY IN DE-FUSING THIS PROBLEM AND, WE SUSPECT, WOULD BE TO THE ADVANTAGE ALSO OF THE ROC ITSELF. END COMMENT.  
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